

Message Text

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ACTION ARA-10

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 8701

INFO AMCONSUL SAO PAULO

AMCONSUL RIO DE JANEIRO

UNCLAS BRASILIA 9526

E.O. 11652: N/A

TAGS: ECON EFIN BR

SUBJECT: BRAZILIAN ECONOMIC STATISTICS

1. SUMMARY: FIVE DAYS PRIOR TO BRAZIL'S NATIONWIDE MUNICIPAL ELECTIONS, THE GOB ANNOUNCED: A SHARP DECLINE IN INFLATION IN OCTOBER, AND HIGHER EXEMPTIONS FOR PERSONAL INCOME TAXES NEXT YEAR. (PARTLY TO COMPENSATE FOR HIGHER RATE OF INFLATION). OTHER RECENT STATISTICS POINT TO A DROP IN CONSUMER BUYING AND A POSSIBLE DECELERATION OF INDUSTRIAL PRODUCTION IN OCTOBER. IF THESE DEVELOPMENTS REPRESENT THE START OF A TREND, THE GOB'S POLICIES TO RESTRAIN THE ECONOMY MAY HAVE STARTED TO PAY OFF. NEW CENTRAL BANK STATISTICS SHOW THAT, DESPITE THE GOB'S MEASURES AIMED AT REDUCING THE TRADE AND SERVICES DEFICITS, THE CURRENT ACCOUNT DEFICIT FOR THE FIRST-HALF OF 1976, \$3,598 MILLION, WAS 2.4 PERCENT WORSE THAN THE FIRST-HALF OF 1975 DEFICIT. ON THE OTHER HAND, THE OVERALL DEFICIT, BENEFITING FROM LARGE CAPITAL INFLOWS, FELL

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TO \$852 MILLION, A 44.6 PERCENT IMPROVEMENT. END SUMMARY.

2. INFLATION. ON NOVEMBER 9, THE GETULIO VARGAS FOUNDATION ANNOUNCED THAT THE OCTOBER INCREASE IN THE GENERAL PRICE INDEX (DISPONIBILIDADE INTERNA) WAS 2.4 PERCENT, A SHARP DROP FROM INFLATION RATES IN THE PRECEDING TWO MONTHS: 3.4 PERCENT IN SEPTEMBER AND 4.1 IN AUGUST. THE OCTOBER FIGURE BRINGS CUMULATIVE INFLATION FROM JANUARY THROUGH OCTOBER TO 40.3 PERCENT. IF INFLATION IN THE LAST TWO MONTHS OF THE YEAR IS THE SAME AS IN OCTOBER, INFLATION FOR THE ENTIRE YEAR WOULD REACH 47.1 PERCENT, THE HIGHEST LEVEL SINCE 1965. INFLATION THIS YEAR WILL BE UP SHARPLY FROM THE 29.4 PERCENT RATE OF 1975, AND THE 34.5 RATE OF 1974. THE PERFORMANCE OF SEVERAL INFLATION INDICATORS FOR THE FIRST TEN MONTHS OF 1976, AS COMPARED WITH THE SAME PERIODS IN 1974 AND 1975, IS SHOWN BELOW:

	1974	1975	1976
GENERAL PRICES		29.6	23.9 40.3
CONSUMER PRICES IN RIO		29.2	25.5 38.4
IN SAO PAULO		27.1	25.3 32.4
IN PORTO ALEGRE		24.1	29.5 30.6
WHOLESALE PRICES		30.1	23.9 39.3
CONSTRUCTION COSTS			
IN RIO		28.0	19.4 52.3

3. INCOME TAX DEDUCTION. ON NOVEMBER 10 PRESIDENT GEISEL, ACCORDING TO NEWS REPORTS, DECIDED ON AN INCREASE IN THE EXEMPTION FOR DEPENDENTS FOR PURPOSES OF CALCULATING PERSONAL INCOME TAX LIABILITY. THE HIGHER EXEMPTION WAS MADE PARTLY TO ADJUST THE INCOME TAX SCHEDULE TO THE HIGHER RATE OF INFLATION.

4. CONSUMER BUYING. THE MONETARY AND CREDIT TIGHTENING MEASURES ENACTED SINCE MID-YEAR, COMBINED WITH A POSSIBLE CHANGE IN CONSUMER EXPECTATIONS, MAY HAVE HELPED CAUSE WEAKENING OF CONSUMER BUYING IN OCTOBER, ESPECIALLY OF DURABLE GOODS.

-- RETAIL SALES IN SAO PAULO WERE OFF 0.5 PERCENT IN UNCLASSIFIED

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REAL TERMS IN OCTOBER IN COMPARISON WITH SALES IN OCTOBER 1975. A DURABLE GOODS DROP LED THE DECLINE. THIS IS THE FIRST MONTHLY REAL DECLINE SINCE MARCH 1975, THE TAIL END OF A SLOW-DOWN.

-- AUTOMOBILE SALES IN OCTOBER FELL BY 13.5 PERCENT IN RELATION TO SEPTEMBER, AND BY 11.8 PERCENT IN

COMPARISON WITH OCTOBER 1975. SALES IN THE FIRST TEN MONTHS OF 1976 STILL ARE 3.8 PERCENT ABOVE THE SAME PERIOD IN 1975. PRODUCTION IN OCTOBER WAS 2.1 PERCENT ABOVE SEPTEMBER DESPITE THE SALES DROP.

5. MONEY SUPPLY. NEWS REPORTS QUOTE OFFICIAL SOURCES AS SAYING THAT THE MONEY SUPPLY (M1) INCREASED BY 19 PERCENT IN THE TEN MONTHS OF 1976. IF TRUE, THIS WOULD IMPLY A REAL DECREASE IN THE MONEY SUPPLY OF 15.2 PERCENT DURING THIS PERIOD (BASED ON 40.3 PERCENT INFLATION THROUGH OCTOBER).

6. ELECTRICITY CONSUMPTION. IN OCTOBER THE CONSUMPTION OF ELECTRICITY IN THE "LIGHT" SYSTEM IN RIO DE JANEIRO AND SAO PAULO REGISTERED ITS LOWEST GAIN THIS YEAR, PERHAPS REFLECTING A DECELERATION OF INDUSTRIAL ACTIVITY. CONSUMPTION WAS ONLY 7.4 PERCENT OVER THAT IN OCTOBER 1975. BY COMPARISON, THE SEPTEMBER 1976 GAIN OVER THE SAME MONTH IN 1975 WAS 14.1 PERCENT. STATISTICS JUST RELEASED SHOW THAT INDUSTRIAL CONSUMPTION OF ELECTRICITY IN THE FIRST-HALF OF 1976 WAS 14.2 ABOVE THAT IN THE FIRST-HALF OF 1975.

7. BALANCE OF PAYMENTS. THE CENTRAL BANK HAS RELEASED THE FOLLOWING PRELIMINARY STATISTICS ON THE BALANCE OF PAYMENTS IN THE FIRST-HALF OF THIS YEAR (MILLIONS OF CURRENT US DOLLARS):

	1ST HALF 1975	1ST HALF 1976	PERCENT CHANGE 76/75
A. TRADE ACCOUNT	-1,847	-1,530	PLUS 17.2
-- EXPORTS	(4,172)	(4,409)	(5.6)

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-- IMPORTS	(6,019)	(5,939)	(-1.3)
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B. SERVICES ACCOUNT	-1,673	-2,072	-23.8
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C. CURRENT ACCOUNT	-3,515	-3,598	- 2.4
INCLUDING UNILATERAL TRANSFERS			

D. CAPITAL ACCOUNT	2,301	2,597	PLUS 12.9
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E. NET ERROSS AND OMISSIONS	- 296	149	N.A.
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F. OVERALL DEFICIT FINANCING			
(C PLUS D PLUS E)	-1,510	-852	PLUS 44.6

8. ON NOV. 11, THE SECRETARY GENERAL OF THE
FINANCE MINISTRY ANNOUNCED THAT FOREIGN
EXCHANGE RESERVES ON NOV. 1 REACHED \$4.9 BILLION,
ABOUT \$1.17 BILLION MORE THAN THE TOTAL ON JUNE 30,
\$3,72 BILLION. THE SAME REPORTS ALSO SAY GROSS
FINANCIAL INFLOWS OF \$3.6 BILLION IN THE JULY/
OCTOBER PERIOD.
CRIMMINS

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